

**Appendix 1: Materials used by Mr. Potter**

**Class II FOMC – Restricted (FR)**

*Material for Briefing on*

**Financial Developments and  
Open Market Operations**

**Simon Potter**  
January 28, 2014

**(1) Asset Price Changes Since December FOMC**

	Around Meeting*	Since FOMC
<i>Changes in Basis Points</i>		
Dec '16 ED Implied Rate	+13	+11
10-Year Treasury Yield	+9	-12
Primary Mortgage Rate**	+5	-3
5-Year Inflation Compensation	-2	+9
HY Corp. Credit OAS	-8	-7
<i>Changes in Percent</i>		
S&P 500 Index	+1.6	+0.5
DXY Dollar Index***	+0.7	+0.5

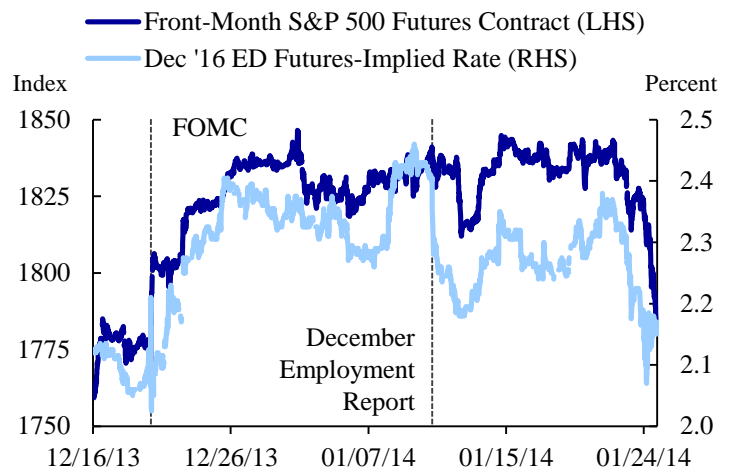
\*2 days around meeting: from 12/17/13 through 12/19/13.

\*\*FHLMC 30-year survey rate.

\*\*\*Positive value indicates dollar appreciation.

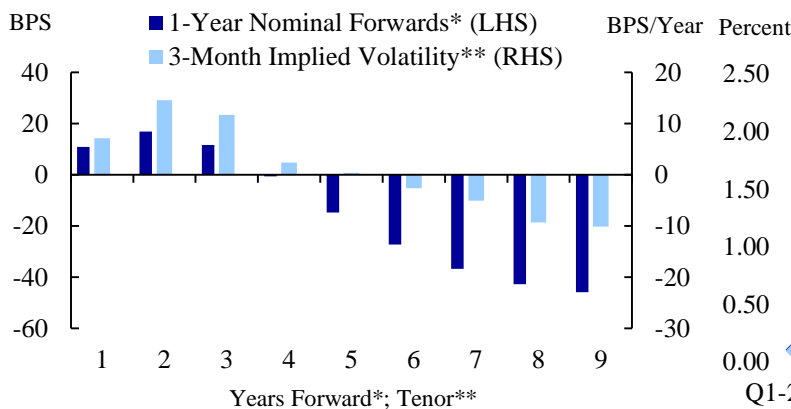
Source: Bloomberg, Barclays

**(2) Front-Month S&P 500 Futures Contract and Eurodollar Futures Rate**



Source: Bloomberg

**(3) Changes in Nominal Forwards and Implied Volatility Since December FOMC**

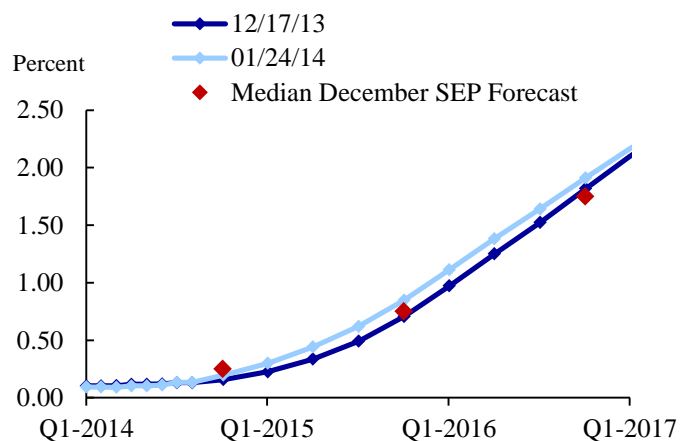


\*X-axis represents years forward for 1-year nominal forwards.

\*\*X-axis represents underlying tenor for options with 3-month expiry.

Source: Federal Reserve Board of Governors, Bloomberg

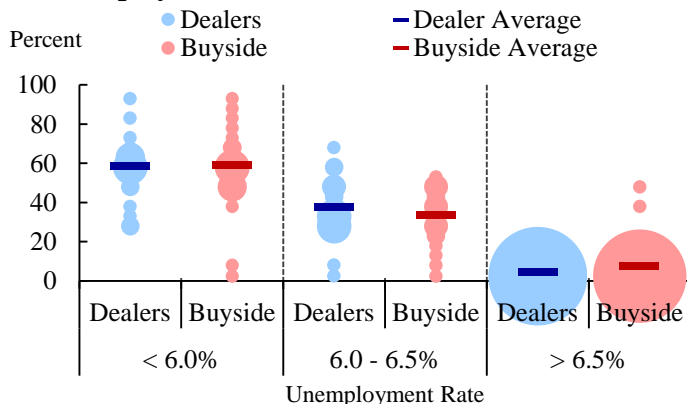
**(4) Implied Federal Funds Rate Path\***



\*Derived from federal funds futures and Eurodollar futures.

Source: Bloomberg, Federal Reserve Bank of New York, Federal Reserve Board of Governors

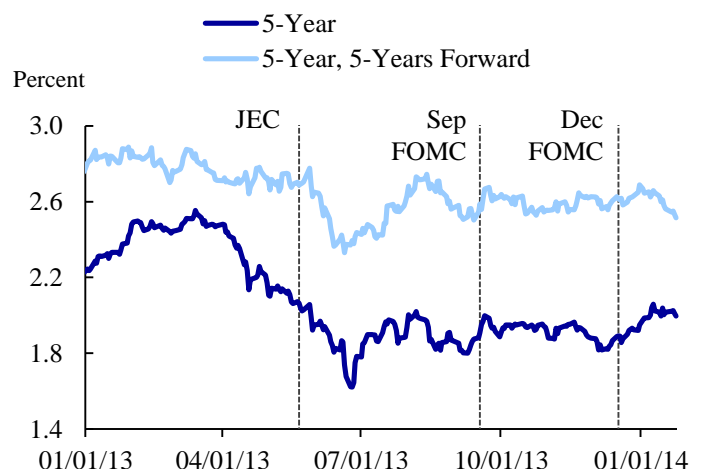
**(5) Distribution of Market Beliefs on Unemployment Rate Outcomes at First Rate Hike\***



\*Conditioned on assumption that projected inflation 1 to 2 years ahead remains below 2.5 percent and longer-term inflation expectations remain well anchored prior to the first rate hike. Dots scaled by number of respondents.

Source: Federal Reserve Bank of New York Surveys

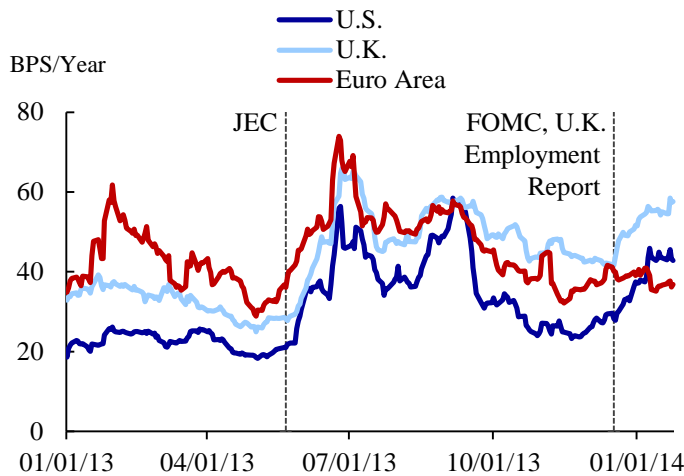
**(6) Inflation Compensation\***



\*Derived from Treasury Inflation-Protected Securities.

Source: Federal Reserve Board of Governors

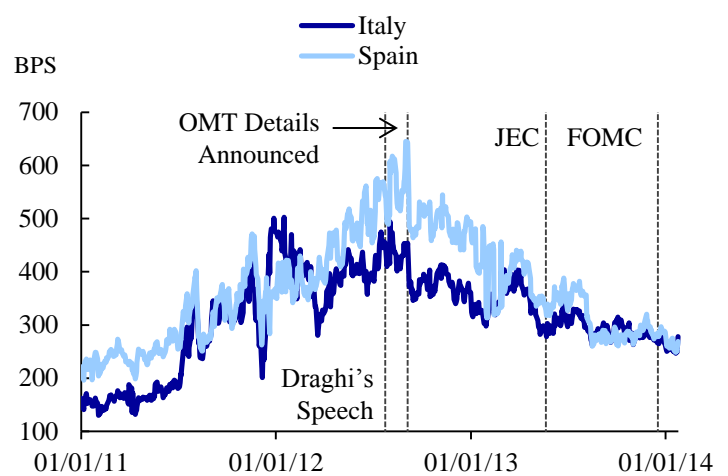
**(7) Swaption-Implied Volatility\***



\*3-month option on 2-year underlying rate.

Source: Bloomberg

**(8) Euro Area Forward Rate Spreads\***



\*5-year, 5-year forward nominal sovereign rate spreads to German equivalent.

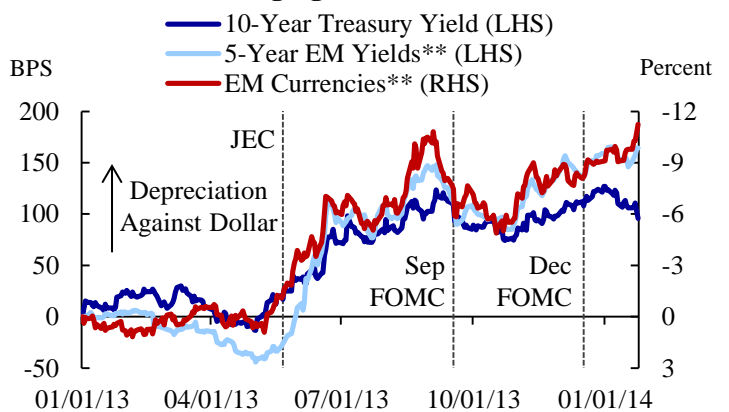
Source: Bloomberg

**(9) Euro Area Asset Price Changes**

	Since FOMC	Since JEC
<i>Changes in Basis Points</i>		
Italian 10-Year Yield	-13	-1
Spanish 10-Year Yield	-30	-39
<i>Changes in Percent</i>		
EuroStoxx 50 Index	+2.9	+7.3
EuroStoxx Bank Index	+9.5	+24.3
FTSE MIB Index	+8.0	+11.1
IBEX Index	+5.6	+16.6

Source: Bloomberg

**(10) Cumulative Changes in U.S. and Emerging Market Assets\***

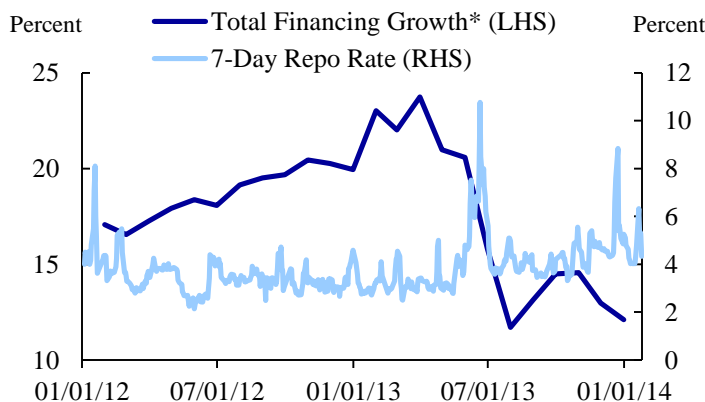


\*Since 01/01/13.

\*\*2012 GDP-weighted average of 15 major emerging market economies.

Source: Bloomberg, FRBNY Staff Calculations

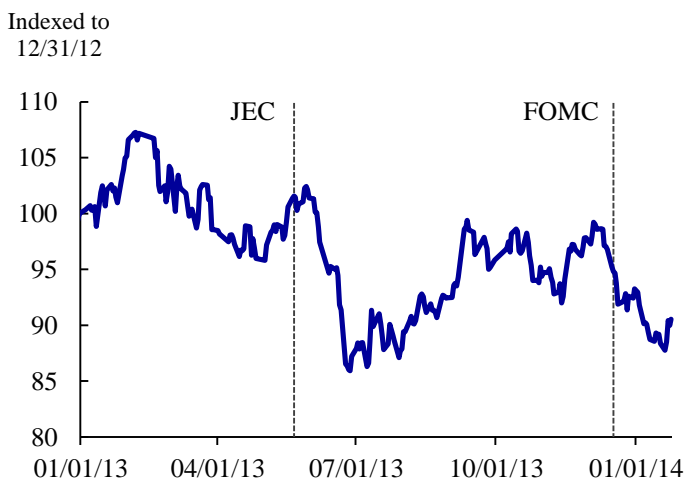
**(11) Chinese Total Financing Growth and Seven-Day Repo Rate**



\*Q.o.Q annualized growth. Monthly data. Includes bank loans, selected off-balance sheet loans, trust loans, corporate bonds and equity issuance.

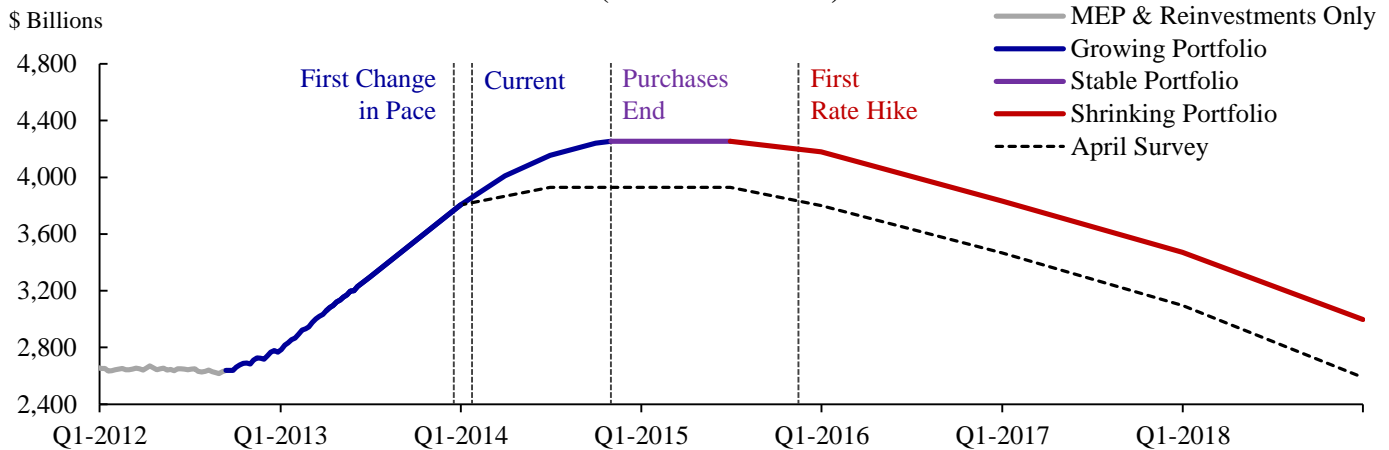
Source: People's Bank of China, CEIC, FRBNY Staff Calculations, Bloomberg

**(12) Shanghai Composite Index**



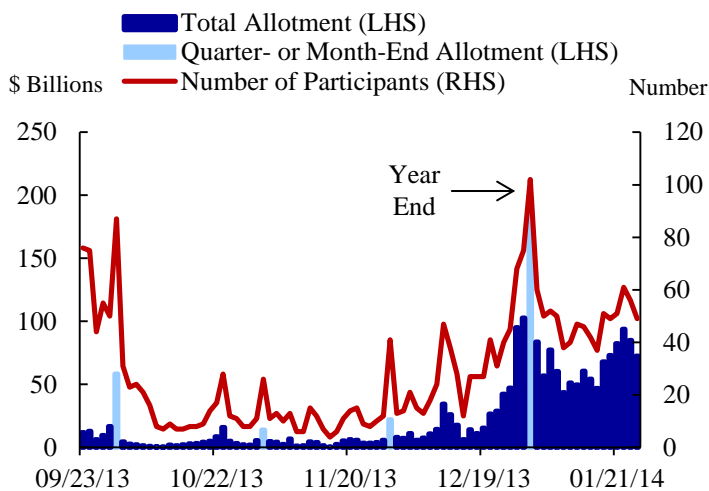
Source: Bloomberg

**(13) SOMA Portfolio Holdings  
(Median Forecasts)**



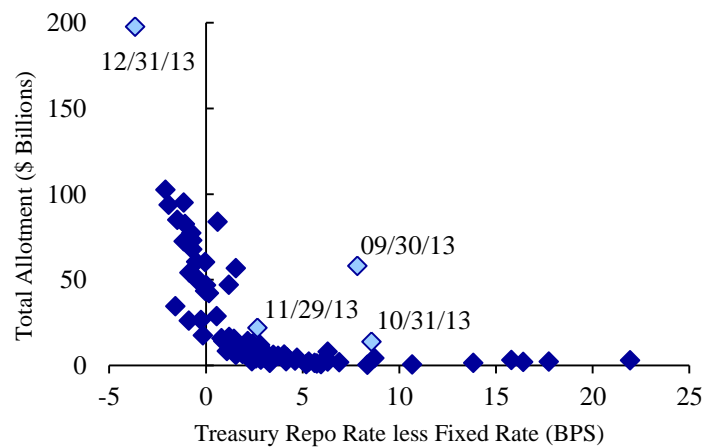
Source: Federal Reserve Bank of New York Survey of Primary Dealers

**(14) Overnight RRP Operation Results**



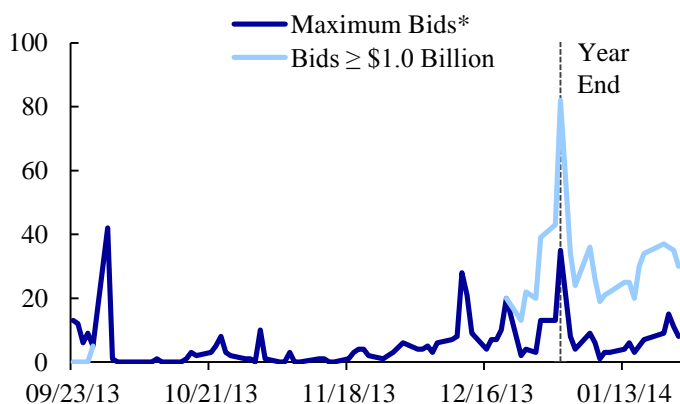
Source: Federal Reserve Bank of New York

**(15) Overnight RRP Participation vs. Rate Spread\***



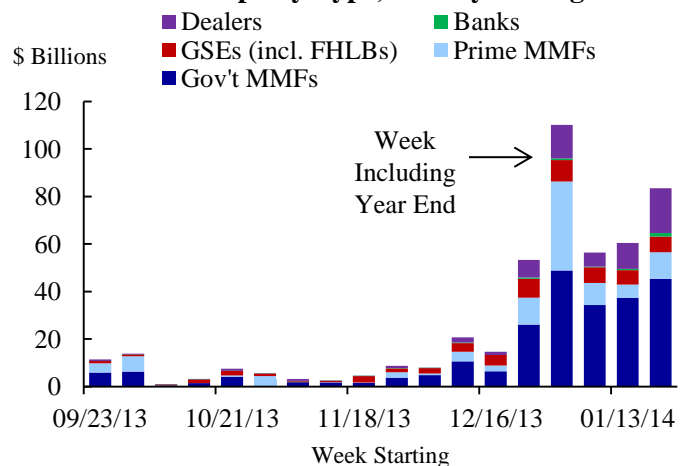
\*Treasury repo rate is the average of the Primary Dealer survey rate, brokered offer rate at time of operation, and DTCC Treasury GCF repo index.  
Source: Federal Reserve Bank of New York, Bloomberg

**(16) Number of Maximum Bids and Bids Greater Than or Equal to \$1.0 Billion**



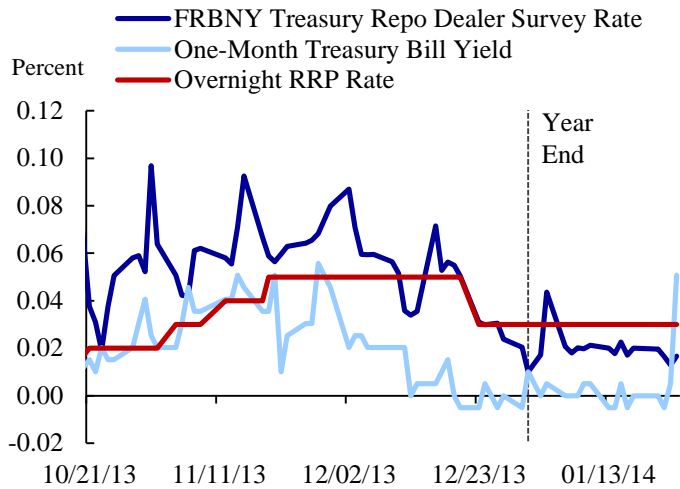
\*Allotment capped at \$0.5 billion from 09/23/13 to 09/26/13, \$1.0 billion from 09/27/13 to 12/20/13, and \$3.0 billion from 12/23/13 to the present.  
Source: Federal Reserve Bank of New York

**(17) Overnight RRP Allotment by Counterparty Type, Weekly Average**



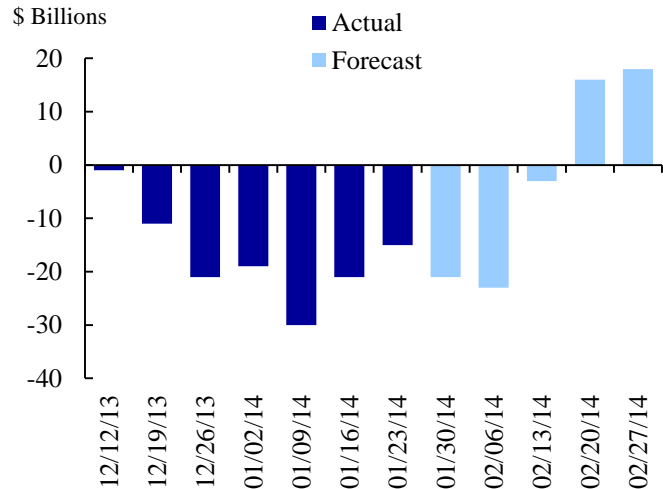
Source: Federal Reserve Bank of New York

**(18) Short-Term Interest Rates**



Source: Federal Reserve Bank of New York, Bloomberg

**(19) Weekly Bill Supply**



Source: U.S. Treasury, Wrightson

**(20) Overnight RRP Exercise Objectives**

- Understand extent to which overnight RRP can establish a floor on rates.
- Evaluate impact of adding counterparties on effectiveness.
- Assess feasibility and impact of operating later or twice in one day.
- Learn if further adjustment is needed soon, to allow adequate time for testing.

**(21) Overnight RRP Recommendations**

- Extend exercise for one year.
- Raise the allotment cap higher in a series of steps and move gradually to full allotment.
- Continue to manage the rate within a band of 0 to 5 basis points.

**Appendix 2: Materials used by Mr. Potter**

**Class II FOMC – Restricted (FR)**

**Overnight Reverse Repurchase Agreement  
Resolution**

January 28, 2014



**Proposed Resolution on Overnight Reverse Repurchase Agreements**

“The Federal Open Market Committee (FOMC) authorizes the Federal Reserve Bank of New York to conduct a series of fixed-rate, overnight reverse repurchase operations involving U.S. Government securities, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, for the purpose of further assessing the potential role for such operations in supporting the implementation of monetary policy. The reverse repurchase operations authorized by this resolution shall be offered at a fixed rate that may vary from zero to five basis points, and for an overnight term, or such longer term as is warranted to accommodate weekend, holiday, and similar trading conventions. Any change to the offered rate within the range specified above or the per-counterparty bid limits will require approval of the Chairman. The System Open Market Account manager will notify the FOMC in advance about any changes to the terms of operations. These operations shall be authorized through January 30, 2015.”

**Memo: Resolution approved September 17, 2013**

“The Federal Open Market Committee (FOMC) authorizes the Federal Reserve Bank of New York to conduct a series of fixed-rate, overnight reverse repurchase operations involving U.S. Government securities, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, for the purpose of assessing operational readiness. The reverse repurchase operations authorized by this resolution shall be (i) offered at a fixed rate that may vary from zero to five basis points, (ii) offered at up to a capped allotment per counterparty of \$1 billion per day and (iii) for an overnight term, or such longer term as is warranted to accommodate weekend, holiday, and similar trading conventions. The System Open Market Account Manager will inform the FOMC in advance of the terms of the planned operations. These operations may be announced when authorized by the Chairman, may begin when authorized by the Chairman on or after September 23, 2013, and shall be authorized through the FOMC meeting that ends on January 29, 2014.”

**Memo: Amendment approved December 17, 2013**

“The Federal Open Market Committee authorizes an increase in the maximum allotment cap for the series of fixed-rate, overnight reverse repurchase operations approved on September 17, 2013, to \$3 billion per counterparty per day from its previous level of \$1 billion per counterparty per day. All other aspects of the resolution remain unchanged.”

**Appendix 3: Materials used by Mr. Wilcox**

**Class II FOMC – Restricted (FR)**

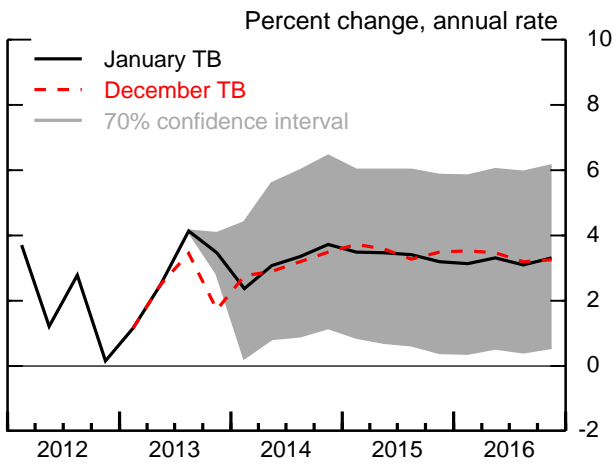
*Material for*  
**Forecast Summary**

**David Wilcox**  
**January 28, 2014**

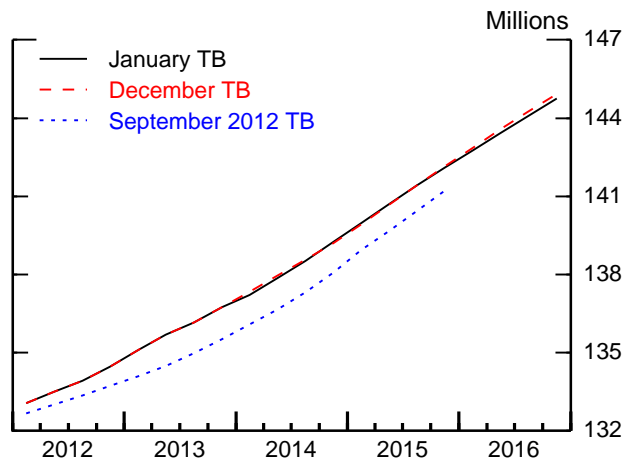
# Forecast Summary

Confidence Intervals Based on FRB/US Stochastic Simulations

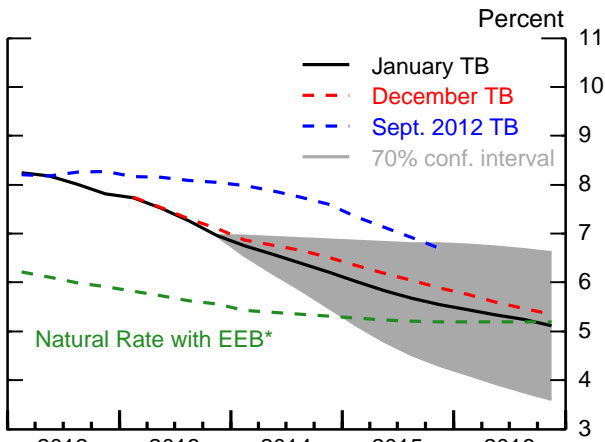
## Real GDP



## Total Payroll Employment

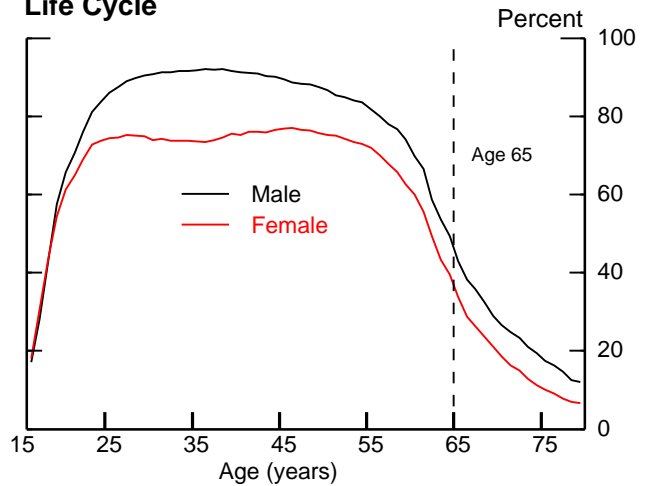


## Unemployment Rate

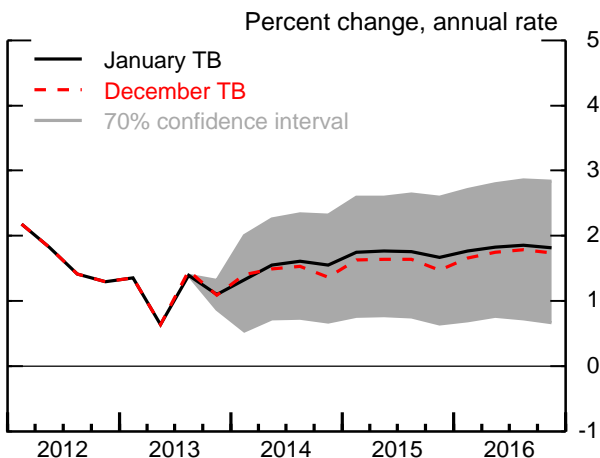


\*Effect of emergency unemployment compensation and state-federal extended benefit programs.

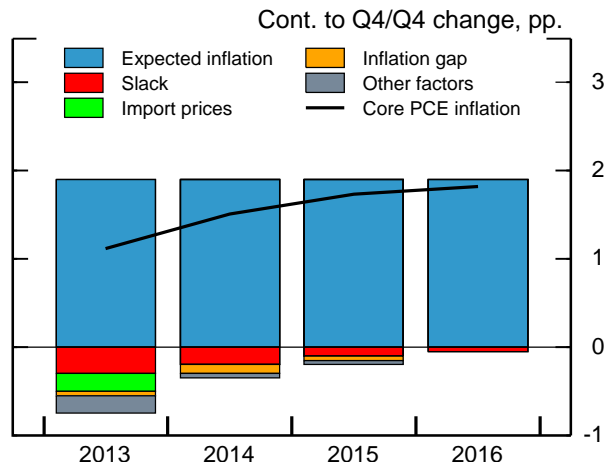
## Labor Force Participation over the Life Cycle



## PCE Prices Excluding Food and Energy



## Decomposition of Core PCE Inflation



**Appendix 4: Materials used by Mr. Kamin**

**Class II FOMC – Restricted (FR)**

*Material for*

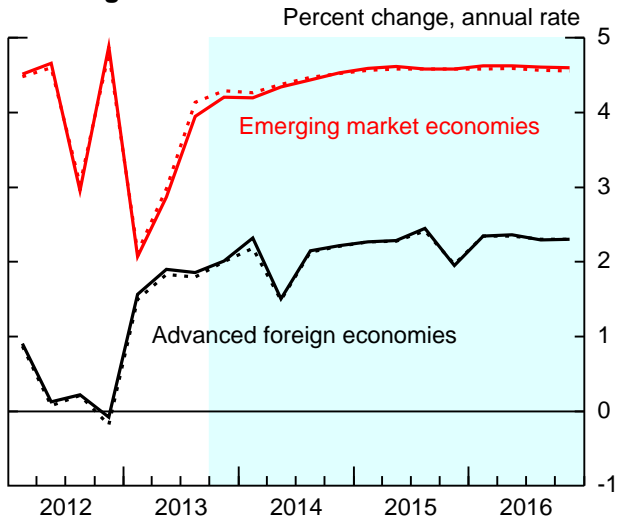
**The Foreign Economic Outlook**

**Steve Kamin**  
**January 28, 2014**

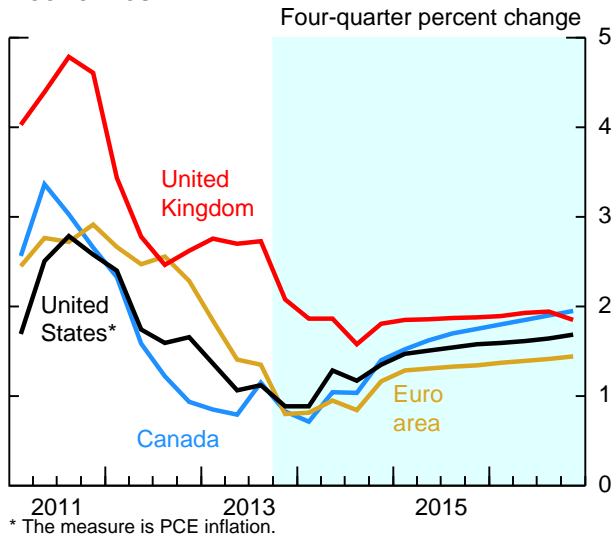
Class II FOMC - Restricted (FR)

### The Foreign Economic Outlook

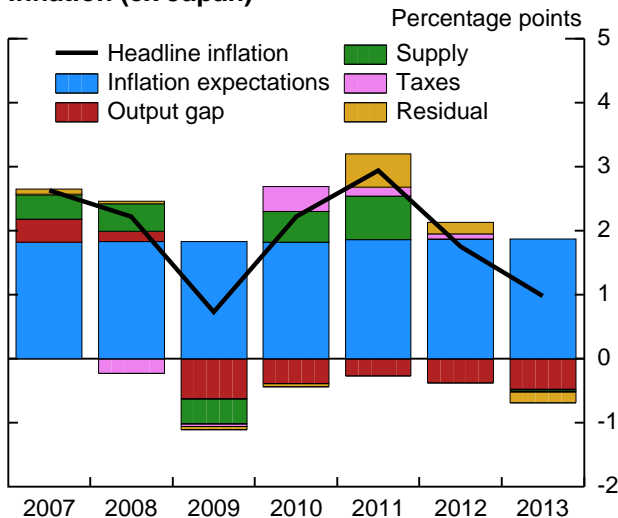
#### 1. Foreign GDP



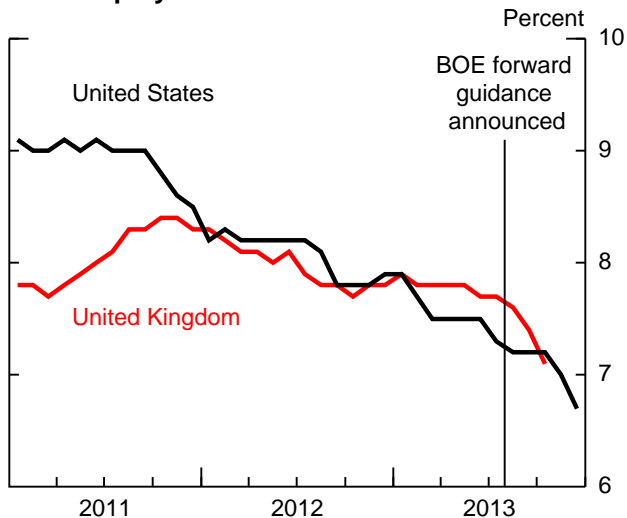
#### 2. Headline CPI Inflation in the Major Advanced Economies



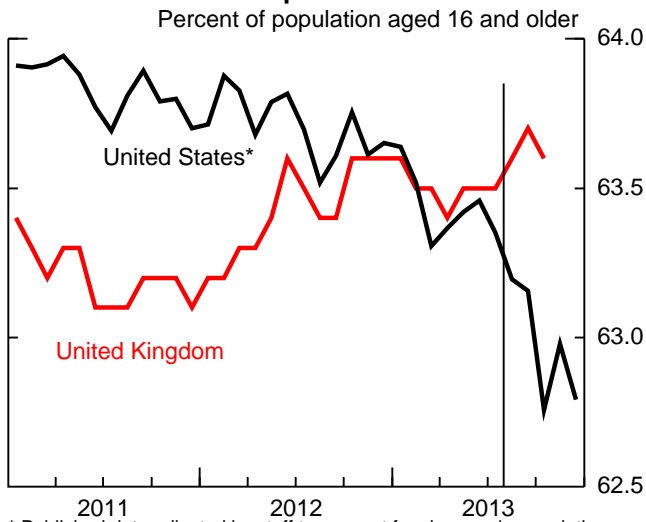
#### 3. Estimated Contribution to AFE Aggregate Inflation (ex Japan)



#### 4. Unemployment Rate

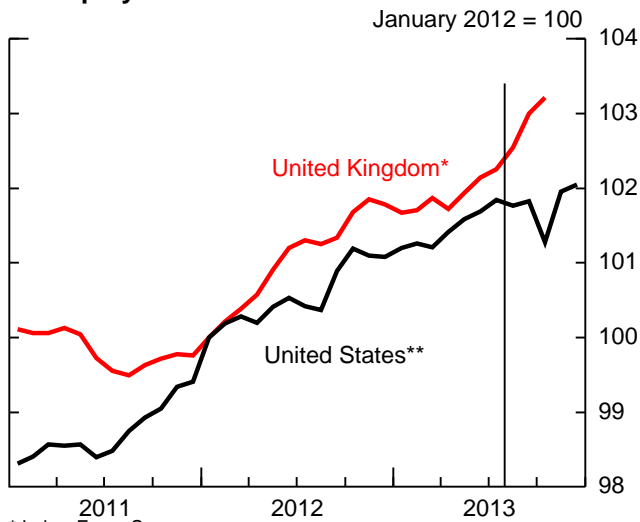


#### 5. Labor Force Participation



\* Published data adjusted by staff to account for changes in population weights.

#### 6. Employment



\* Labor Force Survey.  
\*\* Household Survey.

**Appendix 5: Materials used by Mr. English**



**Class I FOMC – Restricted Controlled (FR)**

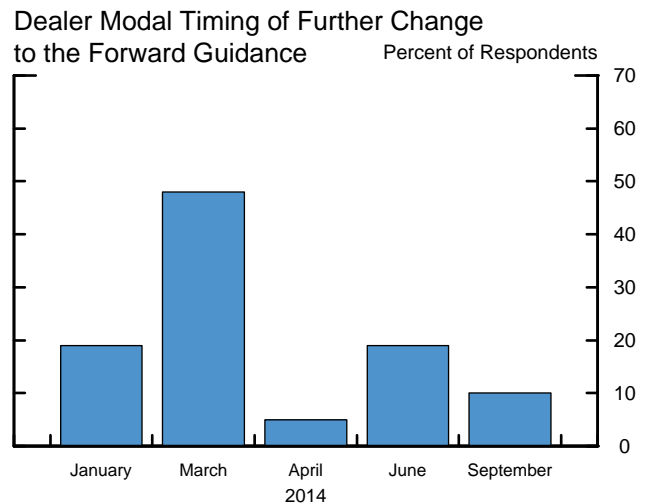
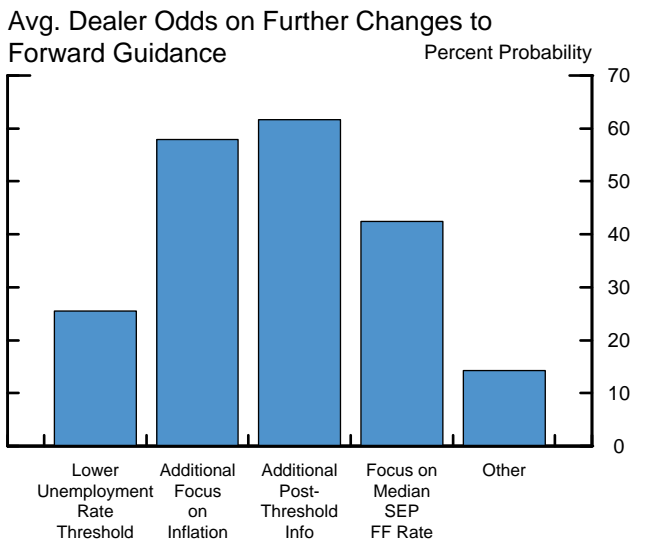
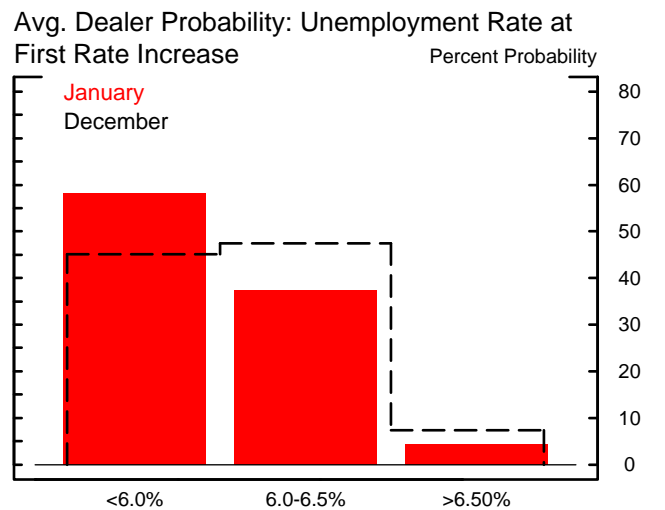
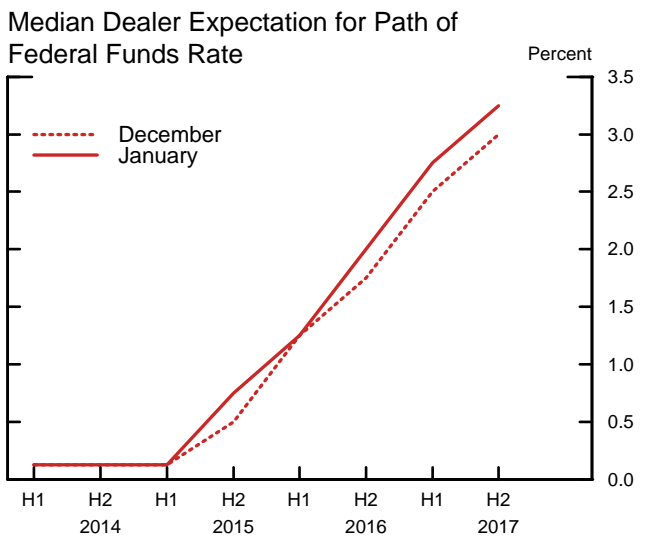
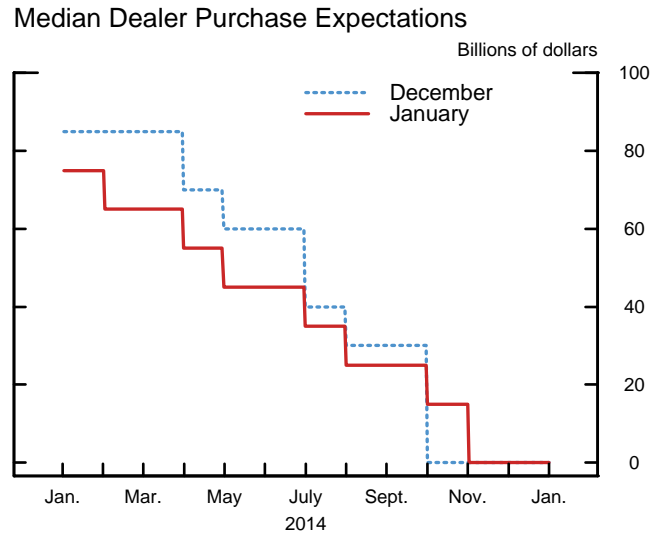
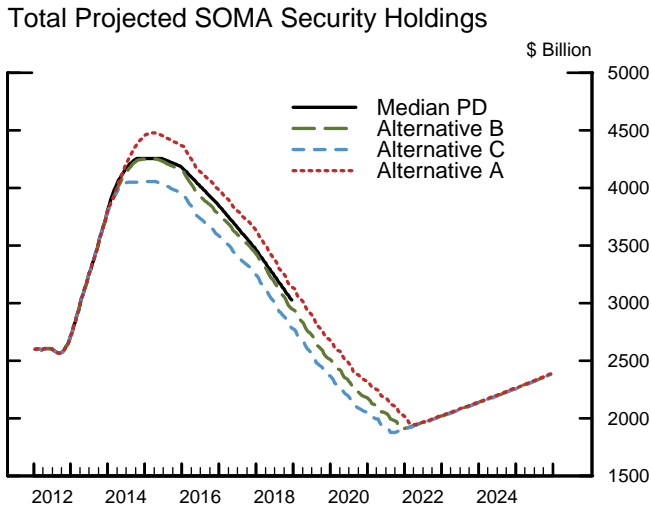
*Material for*

**Briefing on Monetary Policy Alternatives**

**Bill English**

**January 28-29, 2014**

Market Expectations and Policy Issues



Source: January 20, 2014 Primary Dealer Survey.

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**DECEMBER 2013 FOMC STATEMENT**

1. Information received since the Federal Open Market Committee met in October indicates that economic activity is expanding at a moderate pace. Labor market conditions have shown further improvement; the unemployment rate has declined but remains elevated. Household spending and business fixed investment advanced, while the recovery in the housing sector slowed somewhat in recent months. Fiscal policy is restraining economic growth, although the extent of restraint may be diminishing. Inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth will pick up from its recent pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as having become more nearly balanced. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully for evidence that inflation will move back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment since the inception of its current asset purchase program, the Committee sees the improvement in economic activity and labor market conditions over that period as consistent with growing underlying strength in the broader economy. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to modestly reduce the pace of its asset purchases. Beginning in January, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$35 billion per month rather than \$40 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$40 billion per month rather than \$45 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings. However, asset purchases are not on a

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preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. The Committee also reaffirmed its expectation that the current exceptionally low target range for the federal funds rate of 0 to  $\frac{1}{4}$  percent will be appropriate at least as long as the unemployment rate remains above  $6\frac{1}{2}$  percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee now anticipates, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below  $6\frac{1}{2}$  percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

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**FOMC STATEMENT—JANUARY 2014 ALTERNATIVE A**

1. Information received since the Federal Open Market Committee met in ~~October~~ **December** indicates that **growth in** economic activity is ~~expanding at a moderate pace~~ **picked up in recent quarters**. Labor market conditions have shown further improvement; **indicators were mixed**. The unemployment rate has declined but remains elevated. Household spending and business fixed investment advanced **somewhat more quickly in recent months**, while **but** the recovery in the housing sector slowed ~~somewhat in recent months~~. Fiscal policy is restraining economic growth, although the extent of restraint ~~may be~~ **is** diminishing. Inflation has been running **well** below the Committee's longer-run objective, ~~but~~ **even though** longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth **activity** will ~~pick up from its recent~~ **expand at a moderate** pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as ~~having become more nearly balanced~~ **but still tilted slightly to the downside**. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully for evidence that inflation will move back toward its objective over the medium term.
3. ~~Taking into account the extent of federal fiscal retrenchment since the inception of its current asset purchase program, the Committee sees the improvement in economic activity and labor market conditions over that period as consistent with growing underlying strength in the broader economy.~~ **The Committee judges that the information about labor market conditions and inflation received since it met in December does not warrant a reduction in the pace of asset purchases at this meeting.** In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to modestly reduce the pace of its asset purchases. ~~Beginning in January~~ **Accordingly**, the Committee will **continue to** add to its holdings of agency mortgage-backed securities at a pace of \$35 billion per month ~~rather than \$40 billion per month~~, and ~~will add~~ to its holdings of longer-term Treasury securities at a pace of \$40 billion per month ~~rather than \$45 billion per month~~. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate,

until the outlook for the labor market has improved substantially in a context of price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases in ~~further~~ measured steps at future meetings. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. The Committee also reaffirmed its expectation that the current exceptionally low target range for the federal funds rate of 0 to ¼ percent will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. **Information relevant to a comprehensive assessment of labor market conditions includes the level and growth of payroll employment, labor force participation rates, and measures of hiring and job separation.** The Committee now anticipates, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate ~~well past the time that~~ **at least until** the unemployment rate declines below 6½ [ **6** percent, especially if [ **5½ percent so long as** ] projected inflation continues to run below the Committee's 2 percent longer-run goal. When the Committee **eventually** decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

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**FOMC STATEMENT—JANUARY 2014 ALTERNATIVE B**

1. Information received since the Federal Open Market Committee met in ~~October~~ **December** indicates that **growth in** economic activity is ~~expanding at a moderate pace~~ **picked up in recent quarters**. Labor market conditions have shown further improvement; **indicators were mixed**. The unemployment rate has declined but remains elevated. Household spending and business fixed investment advanced **more quickly in recent months**, while the recovery in the housing sector slowed somewhat ~~in recent months~~. Fiscal policy is restraining economic growth, although the extent of restraint ~~may be~~ **is** diminishing. Inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic growth **activity** will ~~pick up from its recent~~ **expand at a moderate** pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as ~~having become more~~ nearly balanced. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully for evidence that inflation will move back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment since the inception of its current asset purchase program, the Committee ~~sees~~ **continues to see** the improvement in economic activity and labor market conditions over that period as consistent with growing underlying strength in the broader economy. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions, the Committee decided to ~~modestly reduce~~ **make a further measured reduction in** the pace of its asset purchases. Beginning in ~~January~~ **February**, the Committee will add to its holdings of agency mortgage-backed securities at a pace of ~~\$35~~ **\$30** billion per month rather than ~~\$40~~ **\$35** billion per month, and will add to its holdings of longer-term Treasury securities at a pace of ~~\$40~~ **\$35** billion per month rather than ~~\$45~~ **\$40** billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward

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its longer-run objective, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. The Committee also reaffirmed its expectation that the current exceptionally low target range for the federal funds rate of 0 to ¼ percent will be appropriate at least as long as the unemployment rate remains above 6½ percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee ~~now anticipates~~ **continues to anticipate**, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below 6½ percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.



**FOMC STATEMENT—JANUARY 2014 ALTERNATIVE C**

1. Information received since the Federal Open Market Committee met in ~~October~~ **December** indicates that **growth in** economic activity is ~~expanding at a moderate pace~~ **picked up in recent quarters**. Labor market conditions have shown further improvement; **in particular**, the unemployment rate, **though still elevated relative to levels the Committee judges consistent with its dual mandate over the longer run**, has ~~declined but remains elevated~~ **continued to decline**. Household spending and business fixed investment advanced **more quickly in recent months**, while **even as** the recovery in the housing sector slowed somewhat ~~in recent months~~ **further**. **The extent to which** fiscal policy is restraining economic growth, ~~although the extent of restraint may be~~ **is** diminishing. **Although** inflation has been running below the Committee's longer-run objective, ~~but~~ longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic ~~growth~~ **activity** will ~~pick up from its recent~~ **expand at a moderate** pace and the unemployment rate will gradually decline toward levels the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as ~~having become more~~ nearly balanced. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully ~~for evidence~~, **but it continues to anticipate** that inflation will move back toward its objective over the medium term.
3. Taking into account the extent of federal fiscal retrenchment since the inception of its current asset purchase program, the Committee sees the improvement in economic activity and labor market conditions over that period as consistent with growing underlying strength in the broader economy. In light of ~~the cumulative~~ **continuing** progress toward maximum employment and the **outlook for ongoing** improvement in ~~the outlook for~~ labor market conditions, the Committee decided to ~~modestly~~ **further** reduce the pace of its asset purchases. Beginning in ~~January~~ **February**, the Committee will add to its holdings of agency mortgage-backed securities at a pace of ~~\$35~~ **\$25** billion per month rather than ~~\$40~~ **\$35** billion per month, and will add to its holdings of longer-term Treasury securities at a pace of ~~\$40~~ **\$30** billion per month rather than ~~\$45~~ **\$40** billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate,

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until the outlook for the labor market has improved substantially in a context of price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely **continue to** reduce the pace of asset purchases ~~in further measured steps~~ at future meetings. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy will remain appropriate for a considerable time after the asset purchase program ends and the economic recovery strengthens. The Committee also reaffirmed its expectation that the current exceptionally low target range for the federal funds rate of 0 to  $\frac{1}{4}$  percent will be appropriate at least as long as the unemployment rate remains above  $6\frac{1}{2}$  percent, inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored. In determining how long to maintain a highly accommodative stance of monetary policy, the Committee will also consider other information, including additional measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee now anticipates, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate well past the time that the unemployment rate declines below  $6\frac{1}{2}$  percent, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

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**December 2013 Directive**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to  $\frac{1}{4}$  percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. Beginning in January, the Desk is directed to purchase longer-term Treasury securities at a pace of about \$40 billion per month and to purchase agency mortgage-backed securities at a pace of about \$35 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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**Directive for January 2014 Alternative A**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. ~~Beginning in January,~~ The Desk is directed to ~~purchase~~ **continue purchasing** longer-term Treasury securities at a pace of about \$40 billion per month and to ~~purchase~~ **continue purchasing** agency mortgage-backed securities at a pace of about \$35 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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**Directive for January 2014 Alternative B**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. Beginning in ~~January~~ **February**, the Desk is directed to purchase longer-term Treasury securities at a pace of about ~~\$40~~ **\$35** billion per month and to purchase agency mortgage-backed securities at a pace of about ~~\$35~~ **\$30** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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**Directive for January 2014 Alternative C**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. Beginning in ~~January~~ **February**, the Desk is directed to purchase longer-term Treasury securities at a pace of about ~~\$40~~ **\$30** billion per month and to purchase agency mortgage-backed securities at a pace of about ~~\$35~~ **\$25** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

**Appendix 6: Materials used by Ms. Logan**

**Statement Regarding Purchases of Treasury Securities and Agency Mortgage-Backed Securities**

On January 29, 2014, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York to purchase additional agency mortgage-backed securities (MBS) at a pace of about \$30 billion per month and longer-term Treasury securities at a pace of about \$35 billion per month, beginning in February 2014. The existing January schedules for agency MBS purchases at a pace of \$35 billion per month and Treasury securities purchases at a pace of \$40 billion per month remain in effect until that time. The FOMC also directed the Desk to maintain its existing policies of reinvesting principal payments from the Federal Reserve's holdings of agency debt and agency MBS in agency MBS and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative.

Purchases of agency MBS will continue to be concentrated in newly-issued agency MBS in the To-Be-Announced (TBA) market, and purchases of longer-term Treasury securities will continue to be distributed using the existing set of sectors and approximate weights. These purchase distributions could change if market conditions warrant.

The amount of agency MBS to be purchased each month and the tentative schedule of Treasury purchase operations for the following calendar month will continue to be announced on or around the last business day of each month. Additionally, the planned amount of purchases associated with reinvestments of principal payments on holdings of agency securities that are anticipated to take place over each monthly period will be announced on or around the eighth business day of the month.

Consistent with current practices, the purchases of agency MBS and Treasury securities will be conducted with the Federal Reserve's eligible counterparties through a competitive bidding process and results will be published on the Federal Reserve Bank of New York's website. The Desk will continue to publish transaction prices for individual operations at the end of each monthly period. All other purchase details remain the same at this time.

Additional information on the purchases of agency MBS and longer-term Treasury securities can be found in a set of Frequently Asked Questions for each asset class in the following locations:

[FAQs: Agency MBS Purchases »](#)

[FAQs: Purchases of Longer-term Treasury Securities »](#)



**Appendix 7: Materials used by Ms. Logan**

## Class I FOMC - Restricted Controlled FR

**Statement to Revise Terms of Overnight Fixed-Rate Reverse Repurchase Agreement Operational Exercise**

As noted in the October 19, 2009, Statement Regarding Reverse Repurchase Agreements, the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York (New York Fed) has been working internally and with market participants on operational aspects of tri-party reverse repurchase agreements (RRPs) to ensure that this tool will be ready to support the monetary policy objectives of the Federal Open Market Committee (Committee). RRPs are a tool that can be used for managing money market interest rates, and are expected to provide the Federal Reserve with greater control over short-term rates.

In further support of this goal, the Committee has authorized the Desk to continue the exercise established in September 2013 of offering daily overnight RRPs and to modify the terms. Specifically, the authorization to conduct this exercise was extended one year, through January 30, 2015. Effective with the operation to be announced tomorrow, Thursday, January 30, 2014, the maximum allotment cap will be increased to \$5 billion per counterparty per day from its current level of \$3 billion per counterparty per day. It is expected that, over the coming months, the maximum allotment cap may be increased further.

The fixed rate for these auctions continues to be authorized between 0 and 5 basis points. The current fixed rate for the operations will be maintained at 0.03 percent (three basis points). All other terms of the operations will remain the same. The operations will remain open to all eligible RRP counterparties, will use Treasury collateral, will settle same-day, and will have an overnight tenor. The RRP operations will continue to be held from 12:45 pm to 1:15 pm (Eastern Time).

Future changes to the maximum bid amount and rate for these RRP operations, or any other key parameter, will be announced with at least one business day prior notice on the New York Fed's website.

Like earlier operational readiness exercises, this work is a matter of prudent advance planning by the Federal Reserve. These operations do not represent a change in the stance of monetary policy, and no inference should be drawn about the timing of any change in the stance of monetary policy in the future.

The results of these operations will be posted on the public website of the New York Fed, together with the results for other temporary open market operations. The outstanding amounts of RRPs are reported as a factor absorbing reserves in Table 1 in the Federal Reserve's H.4.1 statistical release, their remaining maturity is reported in table 2 of that release, and they are reported as liability items in Tables 8 and 9 of that release.